

**Alabama Trust Fund  
Board of Trustees Meeting  
February 19, 2015  
State Capitol, N-202**

Pursuant to public notice, a meeting of the Alabama Trust Fund Board of Trustees was held on February 19, 2015. The meeting was called to order at 10:00 AM by Secretary Boozer. The roll was called by Secretary Boozer and recorded as follows with a quorum present.

**Present:**

Mr. Bill Newton, Vice Chair  
Mr. Young Boozer, Secretary  
Mr. Rich Bielen  
Mr. Daniel Hughes  
Mr. Guice Slawson, Jr  
Dr. Sandra Sims-deGraffenried

**Absent:**

Governor Robert Bentley, Chair  
Mr. Sam Upchurch  
Mr. Terry Bunn

The first decision item was review and approval of the minutes of November 25, 2014. Upon motion made by Mr. Hughes, and a second by Dr. Sims-deGraffenried, the reading of the minutes was dispensed and the minutes were unanimously approved as presented.

The Board preceded to the decision items. Ms. West reviewed the Watch List. She recommended that CS McKee and Sterne Agee remain on the Watch List and GMO be added to the Watch List. Upon motion made by Dr. Sims-deGraffenried, and a second by Mr. Bielen, the recommendations were unanimously approved. Ms. West stated that Callan will be conducting an onsite review of Sterne Agee and will report back to the Board at the next meeting.

The next decision item was the asset allocation for GMO and American Century. Ms. West recommended that the Board move away from the current 2/3 / 1/3 asset split between GMO and American Century in the ATF portfolio and instead split the international small cap equity assets equally between the two managers. Upon motion made by Mr. Bielen, and a second by Mr. Upchurch, the recommendations were unanimously approved.

The next decision item was a request by Western Asset to invest in their mortgage back securities commingled fund. This would allow Western to invest in mortgage back securities but would provide higher diversification and liquidity than individual investments. Ms. West noted that the Board has already invested in several of Western's commingled funds and that the investments are already approved in the IPS. Ms. West recommended that the Board approve the request. Upon motion made by Mr. Upchurch, and a second by Mr. Bielen, the recommendations were unanimously approved.

The next decision item was brought to the Board by Mr. Boozer. Mr. Boozer reported that the Investment Committee met to discuss the RFP for ATF Investment Consultant results and that the Committee's recommendation was that Callan be selected to remain the Board's consultant. Mr. Boozer noted that the recommendation was based on experience, price, and qualifications. Upon motion made by Dr. Sims-deGraffenried, and a second by Mr. Bielen, the recommendation was unanimously approved.

Mr. Boozer reviewed the quarterly financial reports. He noted assets of \$2.81 billion are slightly lower than at September 30, 2014. Quarterly revenues of \$66.5 million were offset with quarterly distributions of \$98 million. Royalty payments were slightly increasing at \$21.2 million when compared to the same quarter the year before. Mr. Boozer noted that the royalty

payments should decline over the next couple of quarters due to the decreases in price. Other reports were reviewed.

Ms. West presented the quarterly investment performance measurement report and market overview. She noted fourth quarter GDP growth was disappointing at only 2.6% primarily because the previous quarters were so strong. She noted that consumer spending and sentiment was still strong. Ms. West also noted the domestic equity and fixed income markets were doing well with the S&P 500 index returning 4.93% for the quarter and the Barclay's Aggregate index returning 1.79% for the quarter and 6.0% for the year.

In comparing the actual ATF asset allocation to the target asset allocation, Ms. West noted a slight overweight to domestic equity, but still within the rebalancing ranges. The quarterly total fund return of 1.67% is below the target return of 1.84% with the small cap equity managers detracting from value. The one year total fund return of 5.01% is 0.71% below the benchmark return. The manager effect was the driver behind the outperformance over the 5-year period, with the fund up 8.74% versus the target return of 8%. She noted that there were four new international equity managers that will not have a full quarter of performance until the next meeting. Total invested assets decreased slightly from September as a result of an investment return of \$43.8 million that was offset by \$74 million in draw outs during the quarter.

Ms. West reviewed the quarterly returns. CS McKee continued to struggle for another quarter; however, they have outperformed since inception. Small cap manager Smith Group underperformed its respective benchmark by 4%. GMO and Wells Capital continued to underperform when compared against its benchmark. Sterne Agee was the only fixed income manager to outperform the benchmark for the quarter. Under real estate, it was noted that Angelo Gordon had 1-year return of almost 27%.

Ms. West reviewed the January flash report noting that all domestic equity managers had negatives returns for the month. The fund had a total return of a negative \$7 million. This left the total fund just above \$2.5 billion. She also noted that CS McKee continued to underperform and Intech continued to outperform.

Under informational items Mr. Boozer noted that the Statement of Economic Interest were due by April 30<sup>th</sup> and that informational minutes from the November 20, 2014 meeting were included.

The next order of business was to review the investment performance of the County & Municipal Government Capital Improvement Trust Fund ("CMT"). The full quarterly investment report was emailed to the Board, and summary information reviewed at the meeting. Ms. West noted that the assets of \$469 million recorded a total quarterly fund return of a 1.68 % to the benchmark of 1.74 %. The underperformance was primarily a result of the manager effect deducting 9 bps, primarily from the domestic fixed income managers. The 1- year total fund return is 4.62%. The October flash report was also reviewed. Ms. West noted that the portfolio had \$1.5 million in realized and unrealized losses for the month.

There being no further business, the meeting was adjourned at approximately 10:48 am.

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Bill Newton, Vice-Chair

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Young Boozer, Secretary